

## Message Text

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ACTION EA-09

INFO OCT-01 ISO-00 PM-04 L-03 EB-07 CIAE-00 INR-07 NSAE-00

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FM AMEMBASSY MANILA

TO COMNAVSEASYS COM WASHDC

INFO NSD SUBIC BAY RP

COMNAVLOGPAC MAKALAPA HI

COMUSNAVPHIL SUBMIC BAY RP

NAVSHIPREPFAC SUBMIC BAY RP

COMNAVSURFAC SAN DIEGO CA

SECSTATE WASHDC 9209

C O N F I D E N T I A L MANILA 15645

E.O. 11652: GDS

TAGS: MARR, MASS, RP

SUBJECT: SALVAGE CONTRACT/RETURN OF VIRGINIA CITY AND SALVAGE  
EQUIPMENT

REF: (A) NSD SUBIC R 15729Z OCT 75 (NOTAL); MANILA 12844  
(110902Z)

1. IN LIGHT OF VERY UNSATISFACTORY POSITION TAKEN BY PNO  
CHAIRMAN VELASCO, AS CITED REF A, AND ON BAIS OF PRIOR DISCU-  
SION WITH CINCPACREPPHIL, ECON/COMMERCIAL COUNSELOR DISCUSSED  
RETURN OF VIRGINIA CITY PLUS ESSM WITH VELASCO NOV 4. MAIN  
POINTS OF PREVIOUS U.S. POSITION REPORTED REF B WERE  
REITERATED TO VELASCO. INTENTIONS OF USG TO PROCEED  
WITH NEGOTIATION OF NEW SALVAGE SERVICE ARRANGEMENTS FOR PACIFIC  
REGION, AND IN THE PROCESS TO PROCEED AS RAPIDLY AS  
POSSIBLE WITH RECLAMATION OF VIRGINIA CITY/ESSM  
WERE AFFIRMED.

2. VELASCO LISTENED INTENTLY TO RECITAL AND THEN ASKED  
WHETHER IT WOULD BE POSSIBLE TO (A) DEFER ACTION TO RETRIEVE  
VIRGINIA CITY AND ESSM FOR A YEAR, AND (B) GIVE LUSTEVECO  
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THE CHANCE TO WORK UP TO AN EXCLUSIVE CONTRACT WITHOUT

A BREAK IN PRESENT ARRANGEMENT. ANSWER TO BOTH WAS A POLITE BUT FIRM NEGATIVE. IT WAS EXPLAINED, INTER ALIA, ON BASIS OF TALK ECON/COMMERCIAL COUNSELOR HAD WASHINGTON OCT 8 WITH SUPSALV CAPT. HUNTLY BOYD THAT NAVY WAS WELL ALONG WITH REVIEW OF ITS POST-VIETNAM AREA SALVAGE SERVICE NEEDS, THAT IT WAS NOT NOW BY ANY MEANS CLEAR WHAT TYPE OF ARRANGEMENT OR HOW MANY FIRMS MAY BE INVOLVED FOR THE FUTURE, BUT THAT A NUMBER OF FIRMS INCLUDING AMERICAN HAD INDICATED INTEREST IN BIDDING FOR FUTURE CONTRACTS.

3. RESPECTING FUTURE SALVAGE OPERATIONS IN PHILIPPINE WATERS, VELASCO MADE IT CLEAR THAT LUSTEVECO WOULD LIKELY BE DESIGNATED AGENCY BY GOP. ECON/COMMERCIAL COUNSELOR SAID THAT, PUTTING ASIDE DISCUSSION OF ANY RIGHTS USG MAY HAVE OR RETAIN IN THE FUTURE TO TAKE CARE OF ITS OWN SALVAGE PROBLEMS UNDER THE TERMS OF THE MILITARY BASES AGREEMENT, THE DESIGNATION OF A SALVAGE FIRM TO WORK IN PHILIPPINE WATERS WAS A PHILIPPINE AFFAIR. TO WORK WITH SUCH A FIRM, HOWEVER, USG NEEDED TO KNOW THAT ITS PRIORITY NEEDS, AS PREVIOUSLY SPELLED OUT IN THE CONTRACT WITH LUSTEVECO, WOULD BE SERVED. VELASCO REPEATED HIS EARLIER POINT THAT HE COULD NOT GIVE GUARANTEE THAT POLITICAL CONSIDERATIONS WOULD ALWAYS PERMIT LUSTEVECO TO RESPOND TO USG NEEDS ON FIRST PRIORITY BASIS. HE WAS TOLD AGAIN THAT HIS CANDOR ON THIS POINT WAS MUCH APPRECIATED BY ALL CONCERNED, BUT HIS INABILITY TO GUARANTEE FIRST PRIORITY TO U.S. NAVY SALVAGE NEEDS, ESPECIALLY RE USE OF ANY USG ASSETS MADE AVAILABLE UNDER A CONTRACT, WAS A SEVERE DISABILITY.

4. VELASCO SAID HE WOULD NEED TO SPEAK TO THE PRESIDENT TO GET A RULING ON WHETHER THE PHILIPPINE GOVERNMENT COULD GUARANTEE THAT FIRST PRIORITY WOULD BE EXTENDED IN ANY NEW CONTRACT, TO U.S. SALVAGE NEEDS OR WHETHER THE PRESIDENT WANTED LUSTEVECO TO DEVELOP AN AREA-WIDE CAPACITY. ON THE VIRGINIA CITY AND ESSM, VELASCO SAID HE WOULD INSTRUCT LUSTEVECO MANAGING DIRECTOR LIM TO CONTACT EMBASSY.  
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5. COMMENT: BASED ON THIS TALK, IT IS CLEAR THAT VELASCO STILL HOPES TO AVOID GIVING UP THE ASSETS BUT SEES NO WAY OUT. HIS DECISION TO SEND LIM TO TALK TO THE EMBASSY IS A POTENTIALLY USEFUL FACE SAVER, AND WE SHOULD GIVE HIM A FEW DAYS TO WORK. UNLESS THERE ARE STRONG OBJECTIONS, THEREFORE, EMBASSY AND CINCPACREPPHIL, BELIEVES WE SHOULD DEFER ANY FURTHER WRITTEN EFFORTS TO

RETRIEVE VIRGINIA CITY AND THE ESSM GEAR FOR THE MOMENT.  
IF GAMBIT DOES NOT WORK, WE OBVIOUSLY WILL HAVE TO FIND  
SOON NEW WAYS THROUGH OR AROUND VELASCO TO RESOLVE  
THIS PROBLEM. WE HAVE SOME THOUGHTS ON THAT, IF THEY  
PROVE NECESSARY. SULLIVAN

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